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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of)
) CC Docket No. 97-149
1997 Annual Access)
Tariff Filings)

REBUTTAL TO OPPOSITIONS TO THE DIRECT CASE OF
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

I. INTRODUCTION

The Southern New England Telephone Company ("SNET") submits this Rebuttal to Oppositions filed to its Direct Case by AT&T and MCI.[1] SNET filed its Direct Case on September 2, 1997 in response to the Common Carrier Bureau of the Federal Communications Commission's ("Commission's") Designation Order.[2]

Neither AT&T nor MCI enumerate any failings by SNET; MCI never even cites SNET in its Opposition. AT&T includes SNET, without benefit of any explanation, in its Appendix C, "Comparison of RBOC Actual Revenue Requirement with Projected," at page 3 of 3, and Appendix F, "Recalculation of Equal Access Exogenous Cost, at page 2 of 2.[3] Despite AT&T's prior challenge to SNET's equal access exogenous cost

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[1] AT&T Opposition to Direct Cases ("AT&T Opposition") and MCI Opposition to Direct Cases ("MCI Opposition") filed September 17, 1997.

[2] In the Matter of 1997 Annual Access Tariff Filings, Order Designating Issues for Investigation; Memorandum Opinion and Order on Reconsideration, CC Docket No. 97-149, DA 97-1609 (Common Carrier Bureau), released July 28, 1997, ("Designation Order"). See also Public Notice, "Common Carrier Bureau Grants United States Telephone Association Petition for Extension of Time in 1997 Annual Access Tariff Filings," DA 97-1724, released August 13, 1997.

[3] Both MCI and AT&T cite, in detail, failings by the RBOCs and GTE without once providing any statement about SNET.

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adjustment,[4] AT&T's now agrees that SNET in fact correctly calculated such costs, as required by the Commission:[5]

> Although in its Petition AT&T had questioned SNET's computation of its initial equal access costs, in its Direct Case (at 5-6), SNET has explained that certain costs were properly expensed as general network upgrades rather than treated as equal access costs.[6]

Neither MCI nor AT&T cites any lack of accuracy nor reasonability of the Base Factor Portion ("BFP") projections. SNET's Direct Case explained fully where any forecast deviates from the historical cost or demand trend, as well as significant differences between the actual result and predictions produced by forecast models used in recent annual filings.[7] Nor was SNET cited for any specific errors in its Base Factor Portion estimates in prior opposition filings.[8] Therefore, SNET maintains that it provided acceptable detailed information on the Commission's investigation issues regarding common line costs and equal access exogenous cost changes; the data is proper, reasonable and fully justified.

II. SNET PROPERLY CALCULATED END USER DEMAND AND BFP REVENUE REQUIREMENTS.

SNET's projected BFP revenue requirements used in its 1997 Annual Access tariff filing is consistent with the trend of SNET's actual BFP revenue requirements. Pursuant

[4] 1997 Annual Access Suspension Order at paras. 23 - 36.

[5] Designation Order at para. 44.

[6] AT&T Opposition at fn. 34.

[7] In the Matter of 1997 Annual Access Tariff Filings, National Exchange Carrier Association Universal Service Fund and Lifeline Assistance Rates, CC Docket No. 97-149, Memorandum Opinion and Order, DA 97-1350 (Common Carrier Bureau), released June 27, 1997 ("1997 Annual Access Suspension Order"), paras. 3 - 7.

[8] Reply Comments of SNET dated June 26, 1997 to Opposition Filings dated June 16, 1997 to SNET 1997 Annual Access Tariff Filing, Transmittal No. 692.

to Paragraph 16 of the Designation Order, SNET's Direct Case presented information on: 1) SNET's actual BFP revenue requirements for each calendar year and tariff year between the 1991-1992 tariff and calendar years and the 1996-1997 tariff and calendar years,[9] and projected BFP revenue requirements filed in each year's TRP for the same period;[10] 2) a BFP revenue requirement comparison by tariff year;[11] 3) a summary of actual calendar year BFP adjusted for FCC rule changes;[12] and 4) documentation explaining the methodology that SNET used to compute its BFP revenue requirement projection for tariff year 1997-1998.[13] Therefore, SNET has addressed the Commission's request for SNET to explain fully any significant differences between each annual BFP revenue requirement projection and SNET's actual annual BFP revenue requirement.[14] The Commission had determined that "significant" means a difference of 10% of the percentage change actually realized.[15] In its Direct Case, SNET provided statistical test results demonstrating that its forecast deviations are not statistically significant. Further, AT&T's calculation of "% Diff. projected vs. actual growth" in its Appendix C is statistically meaningless and illogical given AT&T's failure to challenge the details of SNET's estimates in either prior opposition filings[16] or in SNET's Direct Case.

[9] See SNET Direct Case ("SNET") Workpapers BFP-1 and BFP-2.

[10] See SNET Workpaper BFP-3.

[11] Id.

[12] See SNET Workpapers BFP-4 and BFP-6.

[13] See SNET Workpaper BFP-7.

[14] Designation Order at paras. 17 - 18. See SNET Workpaper BFP-3. See Also AT&T Opposition at p. 10.

[15] Id. at para. 31. This number is simply an arbitrary threshold, which is especially inappropriate as applied to small and medium sized price cap Local Exchange Companies ("LECs") whose base is much smaller than that of the Regional Bell Operating Companies ("BOCs"). In addition, it is not reasonable for the Commission to categorize any small variation beyond 10% (or even as little as 10.01%) as outside the bounds of reasonableness.

[16] See fn. 8.

As required by the Commission, SNET provided the required explanation of any deviations in Exhibit 1.[17] SNET included information that fully explains such deviations as being insignificant (i.e., only 0.1% beyond the 10% threshold), or as being the result of: either 1) specific year-by-year factors such as marketing campaigns for particular customer services (e.g., Centralink 2100); or 2) the introduction of new end-user services such as Home Office which has increased second lines. The separate explanations required by the Commission for each individual class of lines demonstrate that SNET's projections are consistent with historical trends.

AT&T's sweeping generalization that the price cap LECs, as a group, have consistently underestimated their BFP ignores the facts.[18] Each LEC operates in a distinctly different economic and geographic environment from other LECs whose growth is impacted by different characteristics of the marketplace. SNET's Direct Case demonstrates that BFP and access line estimates underlying Common Line rate development are reasonable and fully substantiated.[19] AT&T's claim that SNET has consistently underestimated its BFP and consequently improperly inflated CCL charges for the IXCs is without merit and must be rejected.

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[17] Designation Order, paras. 31 - 33.

[18] AT&T Opposition at p. 10.

[19] SNET Direct Case, Exhibits 1-10, 13 and 14. See Also SNET Direct Case Workpaper BFP-3, Summary BFP Revenue Requirement Growth Comparisons by Tariff Year for details on deviations of forecast to actuals.

III. SNET PROPERLY ACCOUNTED FOR THE COMPLETED AMORTIZATION OF EQUAL ACCESS EXPENSES AND CORRECTLY CALCULATED EQUAL ACCESS EXOGENOUS COSTS.

SNET provided additional data for its equal access exogenous cost adjustment.[20] SNET explained fully the discrepancy between SNET's 1990 Cost of Service Report COS-5 ("COS-5") form and its stated exogenous cost as related to SNET's specific circumstances relative to its equal access mandate and the manner in which SNET completed the 1990 report. It is clear that SNET's equal access exogenous cost is correct as filed in its 1997 Annual Access Tariff Filing, Transmittal 692, dated June 16, 1997.

All amortized non-capitalized expenses associated with SNET's initial equal access conversion, completed in 1988, have been reflected in the calculation of SNET's initial equal access exogenous cost revenue requirement upon the initiation of price cap regulation. The Commission ordered the removal of amortized equal access expenses, not expenses that were directly expensed in the year in which they were incurred and were part of the normal cost of doing business. The calculation of amortized equal access costs at the beginning of price cap regulation is correct.[21]

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[20] Designation Order, para. 35.

[21] See AT&T Opposition at fn. 34.

IV. A PROPOSED "R" OR REVENUE ADJUSTMENT IS NOT THE PROPER MEANS TO FULLY REMOVE AMORTIZED EQUAL ACCESS EXPENSES FROM CURRENT RATES.

AT&T and MCI continue to argue that a revenue adjustment is the correct method to fully remove amortized equal access costs from current rates.[22] As part of SNET's 1997 Annual Access Tariff filing, Transmittal No. 692, filed June 16, 1997, SNET adjusted its equal access cost by multiplying the equal access revenue requirement by the ratio of the current (i.e., the recalibrated June 30, 1997) Traffic Sensitive Price Cap Index ("PCI") over SNET's initial 1991 Traffic Sensitive PCI.[23] Despite Opposition claims that volume growth must be reflected, SNET's adjustment was both necessary and appropriate to account for the significant reduction in SNET's local switching prices and revenues driven by the application of the Commission's annual productivity offsets ("X-factors").[24] Neither MCI nor AT&T address the facts: since SNET's election into price caps, SNET's local switching per minute revenues have continued to decline along with a reduction in SNET's Traffic Sensitive ("TS") PCI of almost 20%. But AT&T continues to require even more draconian reductions so that its unreasonable expectations can be realized.[25]

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[22] MCI at pp. 9-13 and AT&T at pp. 16-16-24.

[23] SNET Transmittal No. 692, June 16, 1997, Workpaper EACR-1 and Description and Justification 2-2.

[24] See Petition of The Southern New England Telephone Company for Waiver and/or Amendment of Part 61 of the Commission's Rules Establishing an "X-Factor" of 6.5%, filed August 13, 1997.

[25] AT&T Opposition at p. iii.

The proposal to use the initial equal access revenue requirement as a "Delta Z" adjustment[26] applied against the current-year, significantly reduced PCI value would force an inappropriately large percentage reduction in SNET's TS PCI. SNET maintains that it should not be required to increase its original equal access exogenous cost requirement by revenue growth without an offsetting adjustment for SNET's PCI reductions since 1991.

V. CONCLUSION

SNET has fully substantiated the supporting data used in its 1997 Annual Access Tariff filing for its BFP estimates underlying Common Line rate development and has correctly calculated equal access amortization costs associated with exogenous cost changes. Therefore, SNET's 1997 Annual Access Tariff filing, Transmittal No. 692 is in compliance with the Commission's rules. Arguments by AT&T and MCI in Opposition are without merit. No revision to SNET's 1997 Annual Access Tariff filing is necessary.

Respectfully submitted,

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September 24, 1997

[26] 47 C. F. R. § 61.45